



# **Introductory Chapters to *U.S. Industry and Trade Outlook® 2000***

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# Highlights of *Outlook 2000*

In 1999 the economy outperformed expectations at the beginning of the year. Initially, forecasters had thought the economy would slow toward a long-term growth rate of about 2.5 percent, in fact, however, the economy showed continued strength. For 2000, most forecasters anticipate some slowing, but growth will still be above what had historically been considered the trend rate of growth.

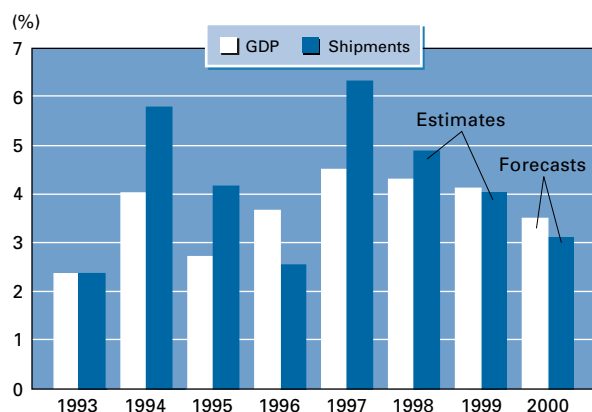
Information technology industries are expected to continue to be strong, with demand also holding up well in consumer goods. Traditional capital goods industries will show little growth, and the export sector is expected to continue to be weak in the face of weak foreign demand.

In aggregate the trends in industry shipments generally reflect the trend in GDP growth (see Figure E-1). Because they are constructed quite differently and have significant compositional differences the two can diverge significantly from time to time.

## TRADE

Trade continues to be a key weakness for the economy. In 1999 exports increased only 2.6 percent. This is an improvement over 1998 when exports fell by 0.4 percent, but still well below earlier rates of growth. While exports as a percent of GDP are just below 11 percent, exports of goods represents more than 20 percent of

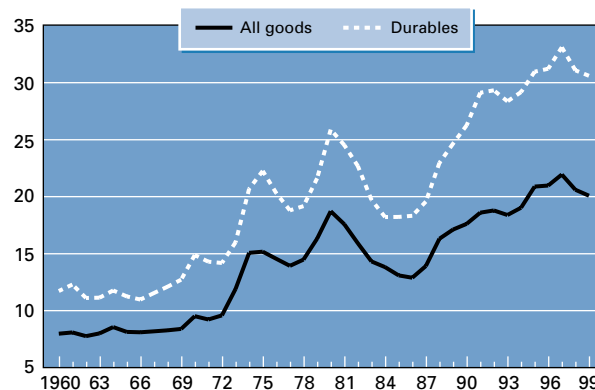
**Growth in GDP and Manufacturers' Shipments\* Compared, 1993–2000**



\*Shipments include only manufacturing industries forecast in *U.S. Industry and Trade Outlook 2000*.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, Bureau of the Census, *Outlook 2000* estimates.

**Exports as a Share of GDP (Goods Only), 1960–1999**



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

FIGURE E-1

FIGURE E-2

**TABLE E-1: Trends in Major Manufacturing Sectors**

(millions of 1992 dollars except where noted)

Sector	Value of Industry Shipments, 2000	Annual Growth Rates, %		
		92-99	98-99	99-2000
Aerospace	131,367	-0.97	6.30	-11.95
Chemicals, plastics, and rubber	177,575	1.66	2.33	1.73
Construction materials	104,904	3.49	2.36	1.97
Consumer durables (selected)	69,825	3.36	3.02	1.46
Food and kindred products	406,963	1.71	2.40	1.76
Industrial supplies	225,013	2.00	0.13	1.98
Information technology	210,681	13.76	10.98	12.41
Health—Drugs, medical, and dental equipment	107,327	4.30	2.64	4.60
Machinery and equipment	79,093	4.24	-5.62	-0.53
Motor vehicles and parts	262,150	6.68	5.65	1.67
Printing and publishing	166,153	1.79	3.50	2.24
Textiles, apparel, and leather	151,421	0.29	-1.63	0.05
Instruments	56,849	3.96	0.49	2.60

Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.

GDP goods output. For durable goods, exports represent more than 30 percent of output (see Figure E-2). Hence, the weakness in foreign markets can have a very heavy impact on goods, especially manufacturing. Traditional capital goods such as machinery, equipment, and aircraft are especially dependent upon exports.

## MANUFACTURING SECTORS

The outlook for domestic industrial growth is mixed despite the overall strength of the domestic economy. The information technology (IT) sector—computers, telecommunications, and semiconductors—will continue to lead the economy. Output of the IT sector will maintain a double-digit growth in 2000. This mirrors the strong investment in information sectors as well as strong consumer demand for information products and services. At the other end of the spectrum, the aerospace industry is expected to see a significant drop in output, though production will still be high by historical standards. Machinery and equipment will be weak, reflecting weak performances in key sectors such as agriculture. In general, more traditional sectors such as chemicals, industrial supplies, and construction materials will all see modest growth. This reflects the modest growth in con-

struction and slowing growth in the motor vehicles sector. Despite the expected strong growth in consumer spending in 2000, output of the consumer durables sectors will grow only modestly. This reflects in part the composition of the sectors forecast as well as the fact that much of the growth will be met by imports, especially consumer electronics (Table E-1).

The ten fastest-growing manufacturing sectors are predominantly high tech and related to information technologies (Table E-2). Semiconductors lead and are the basic components of 5 of the fastest-growing industries. The second and third fastest-growing sectors, both telecommunications-related, reflect the growth in the Internet as well as mobile telephony. Oil and gas field equipment shows signs of recovery from its fall-off in 1999 as a result of low energy prices. This recovery is being driven by higher energy prices, but output levels are still well below 1998 levels. Mining equipment, after a fall-off in 1999, is returning to earlier strong growth trends. The growth in drugs reflects the growing reliance on technology and drugs in the health sector.

Slowest-growing industries present a very mixed picture reflecting a number of different factors (Table E-3). Leading the list is aircraft. This slowdown in orders reflects two factors. First, there is natural slowdown in output of aircraft production after meeting the surge of orders in the mid-1990s. Second, the cur-

**TABLE E-2: Ten Fastest-Growing Manufacturing Industries**

SIC	Industry	Chapter	2000 Value	Rank 92-99	Annual Growth Rates, %		
					92-99	98-99	99-2000
3674	Semiconductors and related devices	16	187,701	9	8.1	22.2	23.0
3661	Telephone and telegraph apparatus	31	51,591	2	12.4	11.9	12.3
3663	Radio and TV communications equipment	31	48,634	24	4.5	10.0	10.0
3672	Printed circuit boards	16	15,645	1	24.9	6.9	9.2
3533	Oil and gas field machinery	18	3,806	110	-0.4	-38.0	9.1
357*	Computers and peripherals	27	131,900	17	5.6	5.0	8.0
3532	Mining machinery	18	2,756	120	-1.7	-3.2	6.9
283	Drugs	11	91,488	42	3.6	1.7	5.6
2015	Poultry slaughtering and processing	35	31,270	51	3.1	5.0	5.1
371P	Automotive parts and accessories	37	210,900	98	0.4	8.1	5.1

\*Current dollars.

Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.

## E-2 U.S. Industry & Trade Outlook 2000

**TABLE E-3: Ten Slowest-Growing Manufacturing Industries**

SIC	Industry	Chapter	2000 Value	Rank 92-99	Annual Growth Rates, %		
					92-99	98-99	99-2000
3721	Aircraft	21	50,433	104	0.1	8.0	-20.4
3171	Women's handbags and purses	34	136	136	-14.3	-13.3	-13.4
3172	Personal leather goods, nec	34	193	133	-9.3	-9.2	-10.6
3151	Leather gloves and mittens	34	73	132	-7.7	-25.2	-8.8
3724	Aircraft engines and engine parts	21	23,524	69	1.9	2.4	-8.0
3728	Aircraft parts and equipment, nec	21	21,314	62	2.5	1.5	-7.8
279	Printing trade services	25	4,024	123	-2.4	-5.5	-6.0
3161	Luggage	34	848	117	-1.1	-10.9	-5.1
3523	Farm machinery and equipment	18	9,937	41	3.6	-30.0	-5.0
3812	Search and navigation equipment	31	24,353	127	-4.5	-3.7	-3.9

Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.

**TABLE E-4: Trends in Nonmanufacturing Industries**

Sector	SIC Code	Chapter	Unit of Measure	Annual Growth Rates, %		
				2000 <sup>1</sup>	99-00	96-00 <sup>2</sup>
<b>Nonservices</b>						
Coal mining	12	2	Production, million short tons	1,168.0	1.2	2.1
Electricity production and sales	4911	5	Revenue, \$ billions	215.1	-1.4	—
Electricity production and sales		5	Total sales, billions of kilowatt-hours	3,258	1.7	—
Construction	na	6	Value of new-construction-put-in-place, billions of \$ 1992	568	0.5	2.9
Lead metal production		14	Thousands of metric tons	1,460	1.8	1.6
Refined copper production		14	Thousands of metric tons	1,820	-16.5	-6.2
Titanium ingot production		14	Metric tons	35,000	-10.3	-9.2
Shipments of aluminum		14	Thousands of metric tons	11,325	1.0	4.2
Zinc metal production		14	Thousands of metric tons	380	2.7	0.9
<b>Services</b>						
U.S. Environmental Industry	na 7371,7373,73	20	Revenues, \$ millions	203,500	2.9	3.0
Professional computer services	77,7378,7379	26	Receipts, \$ millions	214,795	20.0	22.9
Data processing and network services	7374,7376	26	Receipts, \$ millions	65,696	12.0	10.6
Information retrieval services	7375	26	Receipts, \$ millions	19,943	30.0	30.3
U.S. CAD/CAM/CAE software Market	na 4812,4813	28	\$ millions	3,613	11.6	—
Telecommunications services	4822	30	Operating revenues, \$ millions	282,094	7.0	7.4
Motion picture theaters	783	32	Box office receipts, \$ billions	7.8	5.4	7.2
Home video	7841	32	Revenues, \$ billions	18.7	3.9	3.7
Recorded music	3652	32	Revenues, \$ billions	15.4	5.5	5.4
Wholesale distribution	50, 51	41	Wholesale sales, \$ millions	2,668,000	1.8	2.9
Retailing	52-59	42	Retail sales, \$ millions	3,044,422	4.5	5.0
National health expenditures	na	43	\$ millions	1,316,200	7.1	6.0
Commercial banking		45	Commercial and industrial loans, \$ billions	1,046	5.8	7.7
Commercial banking		45	Consumer debt, excluding mortgages, \$ billions	1,472	6.5	5.6
Life insurance		46	Premium receipts, \$ millions	469,190	—	5.5
Nonlife insurance		46	Premium receipts, \$ millions	309,712	—	3.6
New York Stock Exchange firms	6221,6231	47	Total income, \$ millions	211,300	10.1	15.1
Commodity trading industry	628	47	Futures contracts, \$ millions	616.7	11.0	11.8
Accounting, auditing, and bookkeeping services	8721	48	Revenues, \$ millions	82,056	12.0	10.8
Management, consulting, and public relations services	874	48	Revenues, \$ millions	170,771	12.0	13.0
Legal services	81	48	Revenues, \$ millions	158,605	5.5	6.2
Advertising services	731	48	Revenues, \$ millions	40,050	5.5	6.9
Education and training	na	49	Cost of public and private education, \$ 1997/98 billions	600.8	1.5	2.0
Travel and tourism		50	Total travel and tourism spending, \$ billions	570	5.6	—
Air transportation		51	Revenue passenger miles, \$ billions	657	3.0	3.6
Water transportation	44	52	Real GDP, billions of \$ 1992	—	—	—
Railroads	4011	53	Ton-miles, \$ billions	1,405	1.1	0.9

<sup>1</sup> Forecast.

<sup>2</sup> Compound annual growth rate.

Source: *U.S. Industry and Trade Outlook 2000*.

tailment of existing orders as a result of the Asian financial crisis has also led to cutbacks in output. Both leather goods of various kinds and footwear, which face strong import competition, are also weak. The decline in farm machinery reflects the weak U.S. farm sector hit by low prices and weak foreign demand.

## SERVICES

In the services sector, information technology-related services continue to dominate as far as growth is concerned (Table E-4).

The two fastest growth sectors are information retrieval services and professional computer services. Also in the top ten are data processing and network services, CAD/CAM software, and telecommunications services. Business services, in particular management consulting and accounting, continue strong performance. Not surprisingly, given the strong stock market, brokers are also expected to do well. The growth rate for expenditures on health services is up in 2000 after several years of more moderate growth, which many had attributed to the rise of HMOs.

**TABLE E-5: Forecast Growth Rates for 135 Manufacturing Industries and Groups**  
(millions of 1992 dollars except as noted)

SIC	Industry	Chapter	Value of Industry Shipments, 2000	2000 Rank	Rank based on 92-99 Growth	Annual Growth Rates, %		
						92-99	98-99	99-2000
2015	Poultry slaughtering and processing	35	31,270	9	51	3.1	5.0	5.1
201A	Red meat	35	74,650	105	89	0.9	1.0	0.0
2068	Salted and roasted nuts and seeds	35	3,640	11	57	2.9	8.4	4.9
2082	Malt beverages	35	18,335	72	93	0.6	1.5	1.1
2084	Wines, brandy, and brandy spirits	35	5,855	38	28	4.1	2.0	2.5
2085	Distilled and blended liquors	35	3,445	66	105	0.0	0.0	1.3
2096	Potato chips and similar snacks	35	9,860	12	39	3.7	6.2	4.9
221	Cotton broadwoven fabric mills	9	6,454	55	84	1.2	-2.0	1.8
222	Manmade broadwoven fabric mills	9	9,738	69	82	1.3	0.0	1.2
223	Wool broadwoven fabric mills	9	1,694	74	94	0.6	-1.4	1.0
225A	Weft, lace, and warp knit fabric mills	9	7,619	85	95	0.5	0.5	0.9
227	Carpets and rugs	9	12,360	35	56	2.9	2.9	2.7
2281	Yarn spinning mills	9	8,969	88	68	2.2	0.2	0.7
2311	Men's and boys' suits and coats	33	1,754	107	128	-4.5	-1.5	-0.1
2321	Men's and boys' shirts	33	5,040	95	122	-2.3	1.6	0.3
2322	Men's & boys' underwear and nightwear	33	592	90	129	-4.6	1.6	0.5
2323	Men's and boys' neckwear	33	603	100	109	-0.4	-0.7	0.2
2325	Men's and boys' trousers and slacks	33	6,794	111	92	0.7	-0.8	-0.5
2326	Men's and boys' work clothing	33	1,746	115	64	2.3	0.1	-1.2
2331	Women's and misses' blouses and shirts	33	3,556	93	119	-1.6	0.0	0.3
2335	Women's, junior's, and misses' dresses	33	6,983	52	43	3.5	1.1	2.0
2337	Women's and misses' suits and coats	33	3,830	53	121	-2.2	0.2	1.9
2341	Women's and children's underwear	33	2,214	97	116	-1.0	-0.3	0.3
2342	Bras, girdles, and allied garments	33	1,720	103	83	1.3	-1.2	0.1
2361	Girls' and children's dresses, blouses	33	1,566	106	111	-0.5	-0.1	-0.1
2369	Girls' and children's outerwear, nec	33	2,295	71	15	5.8	1.7	1.1
2386	Leather and sheep-lined clothing	34	256	51	60	2.7	5.5	2.0
239A	Textile house furnishings	33	6,866	101	107	-0.1	0.1	0.1
239B	Miscellaneous textile products	33	13,659	108	75	1.6	1.4	-0.4
2421	Sawmills and planing mills, general	7	24,225	65	71	1.8	1.5	1.4
2435	Hardwood veneer and plywood	7	2,365	33	99	0.4	1.1	2.9
2436	Softwood veneer and plywood	7	5,385	83	106	0.0	0.7	0.9
2451	Mobile homes	8	7,800	92	8	8.2	-3.0	0.4
2452	Prefabricated wood buildings	8	2,558	68	65	2.3	2.9	1.3
2493	Reconstituted wood products	7	4,860	45	61	2.6	2.1	2.2
251	Household furniture	38	27,017	59	37	3.8	5.7	1.7
2611	Pulp mills	10	5,042	44	118	-1.5	2.0	2.2
2653	Corrugated and solid fiber boxes	10	23,852	31	66	2.2	2.9	3.0
2657	Folding paperboard boxes	10	8,635	67	88	1.0	1.3	1.3
26A	Paper and paperboard mills	10	54,828	64	79	1.4	1.2	1.5

<sup>1</sup> Shipments in current dollars.

Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.

## E-4 U.S. Industry & Trade Outlook 2000

**TABLE E-5: Forecast Growth Rates for 135 Manufacturing Industries and Groups (Continued)**

(millions of 1992 dollars except as noted)

SIC	Industry	Chapter	Value of Industry Shipments, 2000	2000 Rank	Rank based on 92-99 Growth	Annual Growth Rates, %		
						92-99	98-99	99-2000
2711	Newspapers	25	32,002	76	115	-0.9	0.5	1.0
2721	Periodicals	25	24,963	49	78	1.5	4.1	2.0
2731	Book publishing	25	19,982	36	67	2.2	3.9	2.7
2732	Book printing	25	5,129	89	85	1.2	1.5	0.7
2741	Miscellaneous publishing	25	11,161	99	100	0.3	5.0	0.2
275	Commercial printing	25	74,923	22	40	3.6	5.4	3.8
2761	Manifold business forms	25	5,185	63	131	-5.2	0.9	1.5
2771	Greeting cards	25	4,266	86	102	0.1	0.5	0.8
2782	Blankbooks and looseleaf binders	25	4,778	41	52	3.1	4.5	2.5
2789	Bookbinding and related work	25	1,662	61	45	3.4	3.3	1.6
279	Printing trade services	25	4,024	130	123	-2.4	-5.5	-6.0
281	Industrial inorganic chemicals	11	26,200	62	114	-0.8	1.2	1.6
2821	Plastics materials and resins	11	43,517	30	26	4.2	7.0	3.0
2822	Synthetic rubber	12	5,143	96	59	2.8	0.0	0.3
282A	Man-made fibers	9	15,950	70	55	3.0	0.1	1.2
283	Drugs	11	91,488	8	42	3.6	1.7	5.6
286	Industrial organic chemicals	11	67,750	57	96	0.5	1.6	1.8
2873	Nitrogenous fertilizers	11	3,030	77	113	-0.8	1.7	1.0
2874	Phosphatic fertilizers	11	4,400	84	103	0.1	1.4	0.9
2879	Agricultural chemicals, nec	11	10,070	56	87	1.1	1.7	1.8
289	Miscellaneous chemical products	11	23,270	94	72	1.8	0.2	0.3
308P	Plumbing parts	8	8,770	42	12	6.5	3.9	2.5
3111	Leather tanning and finishing	34	3,065	102	90	0.8	5.1	0.1
3142	House slippers	34	121	125	134	-11.1	-13.2	-3.2
3143	Men's footwear, except athletic	34	1,682	73	125	-4.0	-13.5	1.0
3144	Women's footwear, except athletic	34	434	123	135	-12.0	-13.2	-2.9
3149	Footwear, except rubber, nec	34	230	17	130	-4.7	-17.5	4.1
3151	Leather gloves and mittens	34	73	133	132	-7.7	-25.2	-8.8
3161	Luggage	34	848	129	117	-1.1	-10.9	-5.1
3171	Women's handbags and purses	34	136	135	136	-14.3	-13.3	-13.4
3172	Personal leather goods, nec	34	193	134	133	-9.3	-9.2	-10.6
3211	Flat glass	8	2,787	87	27	4.2	1.2	0.8
3241	Cement, hydraulic	8	5,152	37	53	3.1	2.2	2.5
331A	Steel mill products	13	69,600	26	63	2.4	-1.4	3.1
3441	Fabricated structural metal	8	13,900	32	14	6.1	3.8	3.0
3448	Prefabricated metal buildings	8	3,500	58	54	3.0	1.2	1.7
3451	Screw machine products	15	6,383	25	11	7.0	1.0	3.5
3452	Bolts, nuts, rivets, and washers	15	6,785	28	44	3.4	0.0	3.0
349A	Valves and pipe fittings	15	9,073	75	77	1.5	-6.0	1.0
3511	Turbines and turbine generator sets	19	6,294	124	86	1.2	5.9	-2.9
3523	Farm machinery and equipment	18	9,937	128	41	3.6	-30.0	-5.0
3524	Lawn and garden equipment	38	6,501	118	7	8.6	-3.5	-1.8
3531	Construction machinery	18	22,623	126	10	7.6	-3.1	-3.2
3532	Mining machinery	18	2,756	7	120	-1.7	-3.2	6.9
3533	Oil and gas field machinery	18	3,806	5	110	-0.4	-38.0	9.1
3545	Machine tool accessories	17	5,299	43	49	3.2	3.7	2.4
3546	Power-driven handtools	17	3,760	15	13	6.3	5.4	4.7
3548	Welding apparatus	17	4,403	14	81	1.4	5.0	4.7
354A	Machine tools	17	4,858	120	25	4.3	-12.0	-2.0
3554	Paper industries machinery	18	2,709	122	34	3.8	-5.8	-2.3
3555	Printing trades machinery	18	3,466	80	97	0.5	0.8	1.0
3556	Food products machinery	18	2,595	18	58	2.8	1.6	4.0
3562	Ball and roller bearings	15	5,266	79	22	4.7	-3.0	1.0

<sup>1</sup> Shipments in current dollars.Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.

**TABLE E-5: Forecast Growth Rates for 135 Manufacturing Industries and Groups (Continued)**

(millions of 1992 dollars except as noted)

SIC	Industry	Chapter	Value of Industry Shipments, 2000	2000 Rank	Rank based on 92-99 Growth	Annual Growth Rates, %		
						92-99	98-99	99-2000
3565	Packaging machinery	18	4,438	48	4	10.2	2.0	2.0
357A	Computers and peripherals <sup>1</sup>	27	131,900	6	17	5.6	5.0	8.0
3585	Refrigeration and heating equipment	18	28,833	110	29	4.1	3.2	-0.5
3612	Transformers, except electronic	19	5,349	121	70	1.8	-0.9	-2.0
3613	Switchgear and switchboard apparatus	19	6,415	113	32	3.9	-2.4	-0.6
3621	Motors and generators	19	10,546	114	48	3.3	-1.1	-0.9
3625	Relays and industrial controls	19	9,662	109	30	4.0	-2.8	-0.4
3631	Household cooking equipment	38	4,033	19	35	3.8	6.0	4.0
3632	Household refrigerators and freezers	38	5,655	29	33	3.9	6.0	3.0
3633	Household laundry equipment	38	4,510	21	36	3.8	6.5	4.0
3634	Electric housewares and fans	38	3,790	81	23	4.7	2.0	1.0
3635	Household vacuum cleaners	38	2,735	20	108	-0.1	7.0	4.0
3639	Household appliances, nec	38	3,391	27	3	12.2	4.0	3.0
3661	Telephone and telegraph apparatus	31	51,591	2	2	12.4	11.9	12.3
3663	Radio and TV communications equipment	31	48,634	3	24	4.5	10.0	10.0
3671	Electron tubes	16	4,396	40	5	10.1	4.4	2.5
3672	Printed circuit boards	16	15,645	4	1	24.9	6.9	9.2
3674	Semiconductors and related devices	16	187,701	1	9	8.1	22.2	23.0
367A	Passive components	16	55,391	23	31	3.9	6.2	3.7
371A	Motor vehicles and bodies	36	201,250	117	6	9.6	3.3	-1.7
371P	Automotive parts and accessories	37	210,900	10	98	0.4	8.1	5.1
3721	Aircraft	21	50,433	136	104	0.1	8.0	-20.4
3724	Aircraft engines and engine parts	21	23,524	132	69	1.9	2.4	-8.0
3728	Aircraft parts and equipment, nec	21	21,314	131	62	2.5	1.5	-7.8
3732	Boat building and repairing	39	5,711	116	50	3.2	0.6	-1.2
3761	Guided missiles and space vehicles	21	21,752	98	76	1.6	10.6	0.2
3764	Space propulsion units and parts	21	3,790	54	126	-4.5	9.7	1.9
3769	Space vehicle equipment, nec	21	1,889	91	112	-0.6	12.6	0.5
3812	Search and navigation equipment	31	24,353	127	127	-4.5	-3.7	-3.9
3825	Instruments to measure electricity	23	13,370	34	16	5.7	3.4	2.8
3841	Surgical and medical instruments	44	20,168	13	19	5.3	5.7	4.8
3842	Surgical appliances and supplies	44	15,765	60	74	1.7	2.8	1.7
3843	Dental equipment and supplies	44	2,780	16	21	4.8	7.3	4.5
3844	X-ray apparatus and tubes	44	3,556	104	80	1.4	0.0	0.0
3845	Electromedical equipment	44	10,336	50	20	5.0	5.0	2.0
3861	Photographic equipment and supplies	24	25,400	47	73	1.7	-4.6	2.0
38A	Laboratory instruments	23	14,611	24	18	5.3	3.9	3.5
38B	Measuring and controlling instruments	23	21,244	39	38	3.7	3.0	2.5
3911	Jewelry, precious metal	40	5,358	78	46	3.4	1.0	1.0
3931	Musical instruments	40	1,045	82	91	0.8	1.0	1.0
3949	Sporting and athletic goods, nec	39	9,710	46	47	3.3	1.5	2.1
394A	Dolls, toys, and games	39	4,574	112	101	0.2	-0.6	-0.5
3961	Costume jewelry	40	1,084	119	124	-3.7	-2.0	-2.0
	Total		2,414,360	137	137	4.3	4.0	3.1

<sup>1</sup> Shipments in current dollars.Source: U.S. Department of Commerce, Bureau of the Census, and *U.S. Industry and Trade Outlook 2000*.



# Getting the Most Out of *Outlook 2000*

Welcome to the third edition of *U.S. Industry & Trade Outlook*®, a joint publication of the U.S. Department of Commerce and The McGraw-Hill Companies. This series replaces *U.S. Industrial Outlook*, which the Department of Commerce had published annually until 1994. Like its predecessor, *U.S. Industry & Trade Outlook*® is a single reference source that business professionals, investors, researchers, and students can use to get information on U.S. industries, how those industries affect the U.S. economy, and where they are going in an increasingly global marketplace. Most of the chapters have been written by government analysts; also participating were McGraw-Hill authors (principally from Standard & Poor's Equity Investor Services and Standard & Poor's DRI) and independent analysts and industry experts. To ensure that the articles and forecasts are objective and unbiased, government economists have reviewed all chapters.

## **ANALYTICAL APPROACH: SIC CODES**

Data in the *2000 Outlook* are based on the *Standard Industrial Classification Manual—1987*, which classifies industries by SIC codes. These codes have been used as the basis for collecting most of the data on domestic industries. This classification system includes all sectors, from manufacturing and service industries to construction, agriculture, and natural resources. The SIC system begins with nine major categories: (1) agriculture, forestry, and fishing, (2) mining, (3) construction, (4) manufacturing, (5) transportation, communications, and public utilities, (6) wholesale

trade, (7) retail trade, (8) finance, insurance, and real estate, and (9) services. These basic categories, in turn, are divided into groups with two-digit, three-digit, and four-digit industry codes; each additional digit indicates a greater degree of specificity.

## **A NEW APPROACH: THE NAICS SYSTEM**

In an effort to standardize their data collection systems, the United States, Canada, and Mexico collaborated in developing a new economic classification system, the North American Industry Classification System (NAICS). This also served to address the criticism that the SIC system focused too heavily on manufacturing, giving too little recognition to the growing services sector. NAICS is based on a production concept, defining industries by grouping together establishments that use similar processes and inputs to produce a good or a service. Inputs include types of labor and skills, capital equipment, and intermediate materials. In many cases, intangible inputs may be important, especially in service industries. The final listing of NAICS industries appeared in the *Federal Register* of April 9, 1997, and is available on the Internet at [www.census.gov/epcd/www/naics.html#fedreg](http://www.census.gov/epcd/www/naics.html#fedreg). The United States adopted and began presenting data based on NAICS with the release of the 1997 Economic Census reports. Eventually, all U.S. industrial statistics will be tabulated according to NAICS rather than SIC definitions. Industry data based on NAICS were released too late to have been included in *Outlook 2000*.



## DATA FEATURED IN EACH CHAPTER

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### Economic and Trade Trends Graphs

Each chapter begins with four overview graphs depicting information on the particular industry segment. A common format is used for all manufacturing industries. For nonmanufacturing industries, graphs were chosen that are pertinent to the specific industry. The four graphics used consistently for manufacturing industries are U.S. international trade, world export market shares, U.S. export dependence and import penetration, and U.S. output and output per worker.

**U.S. International Trade.** This graph depicts worldwide U.S. exports and imports and the resulting trade balance.

**World Export Market Share.** The world export market share data have been developed from international trade information collected by the United Nations. These data are classified by Standard International Trade Classifications (SITC), Revision 3, which does not correspond to the 1987 SIC system used for U.S. domestic industries. An attempt was made to develop comparable statistics by identifying the SITCs that accounted for a preponderance of trade at the chapter level. In some cases, an appropriate match could not be made. Where the worldwide international trade data do not accurately reflect the SIC industries included in the chapter, no data are presented.

**Export Dependence and Import Penetration.** The export dependence ratio is derived by dividing exports by comparable domestic shipments; the import penetration ratio is derived by dividing imports by the sum of comparable shipments and imports minus exports (apparent consumption). The ratios do not necessarily use the shipments data included in the trends and forecasts tables (discussed below); shipment data were modified to reflect all traded commodities of a particular sector.

**Output and Output per Worker.** The industry output and productivity series were constructed by using published and unpublished indexes from the Bureau of Labor Statistics (BLS). Indexes comparable to the SICs covered in each chapter were rebased to 1992 (i.e., 1992 = 100). Then a weighted index was constructed, using the 1996 value of industry shipments as weights. At the national level, output is for private nonfarm business, adjusted for inflation. Private nonfarm business output is gross domestic product (GDP) minus the sum of agricultural output and the output of the government sector. BLS provided data on total employment.

### Trends and Forecasts Tables

The trends and forecasts table is a standard feature in manufacturing chapters. This table defines the industry by SIC codes and contains up to 9 years of statistics. This edition contains industry and product data from 1992 through 2000. Shipments data through 1996 are actual; data for 1997, 1998, and 1999 are estimates, and data for 2000 are forecasts. The chapters in *Outlook 2000* were being prepared while 1997 Census data were being released. Applicable 1997 Census statistics, when available, were taken into consideration by the authors, but their inclusion was at

the author's discretion, based on his or her evaluation of the impact that the conversion to the NAICS basis would have on the relevant industry statistics. Trade data through 1998 are actual. The value of shipments in the trends and forecasts tables generally is shown in both "current" and "constant" dollars. The constant dollars in the trends and forecasts tables are identified as "value of shipments (1992\$)." This means that output is valued using 1992 prices. (See the accompanying glossary for further explanation.) Historical data also are provided for capital investment and earnings (both in current dollars) and employment.

The difference between industry and product shipments is important for interpreting the statistics in this book. Shipments data are collected separately for individual factories or establishments rather than for entire companies. Although most factories or establishments make or sell a variety of products, for statistical purposes, individual concerns are classified under the industry of their most prominent product. For instance, if 80 percent of a plant's total output consists of tires and 20 percent consists of hose and belting, that plant is classified as a tire industry plant. The total output of all such plants makes up the shipments for the industry. Other measures of activity under the "industry" heading, such as employment and hourly earnings, are reported for the establishments classified as being in that industry.

The value of all tires shipped by all establishments is added to derive "product shipments." In other words, "industry shipments" refers to the total value of all activities conducted by the establishments classified in an industry. "Product shipments" can be thought of as the total value of specific products classified within an industry shipped by all establishments regardless of how those establishments are classified.

When a plant's products change substantially, the industry under which the plant is classified may change as well. Despite such changes, historical data are not revised, and this can result in significant discontinuities. The reader therefore should use care in relating industry statistics (such as employment) to product statistics because an industry's product mix may change.

### Trade Patterns Tables

These tables include data on exports and imports for the six major areas of the world and data on the United States' top purchasers and suppliers of merchandise. The six major regions are NAFTA (North American Free Trade Agreement countries of Canada and Mexico), Latin America (all other countries in the western hemisphere except Canada and Mexico), Western Europe (all countries in that region, whether a European Union member or not), Japan/Chinese Economic Area (Japan, China, Hong Kong, and Taiwan), Other Asia (all countries on the Asian continent except the Japan/Chinese Economic Area and the Middle East), and the Rest of World (eastern Europe and the former Soviet states, the Middle East, Africa, Australia, New Zealand, and other Pacific countries and territories).

### Data Sources and Methods

**Industry and Product Data.** For manufacturing industries, the most reliable and consistent federal source of historical data on items such as value of shipments, employment and wages,

and capital investments is the *Census of Manufactures*, revised and updated by the *Annual Survey of Manufactures*. Mining industry data are published in the *Census of Minerals*; data for subsequent years are available from the U.S. Department of Interior, Bureau of Mines. Data for many service industries are included in the Census of Service Industries and the Census Bureau's Service Annual Surveys, which are current through 1996. New Censuses of Manufactures and Minerals are taken every five years. Recent editions of the *Outlook* have been based on the 1992 *Census of Manufactures* and the 1992 *Census of Minerals*. (For the latest available data from the Economic Census, see [www.census.gov/epcd/www/econ97.html](http://www.census.gov/epcd/www/econ97.html).)

**Trade Data.** Trade data are collected using the Harmonized System (HS), a procedure the United States adopted in 1989. Most major industrial countries and many less developed countries use the HS, making it easier to assess and compare recent (but not pre-1989) international trade by commodity for various countries. Census trade data (exports and imports) are tabulated by following the Bureau of the Census's trade concordance, as adjusted by the various analysts to approximate their four-digit SIC industry groupings. Census data on U.S. merchandise trade are current through 1997. In preparation for the adoption of the NAICS as the new U.S. domestic industry classification, the U.S. Bureau of the Census modified the SIC-based trade concordance. It also took this opportunity to correct SIC assignments of HS codes. The trade statistics presented in *Outlook 2000* have been revised to reflect those changes.

Analysis of trade data over a longer period is more difficult. Since trade data used to be collected and tabulated differently, one cannot determine whether apparent changes in the value of trade by category before and after 1989 are due to actual trade developments or to changes in reporting and classifying practices.

## WHERE TO FIND MORE INFORMATION

Two federal government resources of general interest to U.S. businesses are *A Basic Guide to Exporting*, which discusses exporting strategies and related issues, and the U.S. Trade Information Center (1-800-USA-TRADE), the definitive source for information on U.S. government export programs and activities.

Free catalogs listing government publications can be ordered from the superintendent of documents at the U.S. Government Printing Office (GPO) by calling (202) 512-1800 or faxing an order to (202) 512-2250. (The GPO's Internet address is [www.access.gpo.gov](http://www.access.gpo.gov).) Call the National Technical Information Service at (703) 487-4650 for information and to order catalogs on thousands of government publications or visit the Web site at [www.ntis.gov](http://www.ntis.gov). In addition, the U.S. Bureau of the Census has made statistical information available on its Web site at [www.census.gov](http://www.census.gov).

The government documents mentioned here can be found in the reference section of many libraries and on the Web sites of university and state libraries that participate in the Federal Depository Library program. Useful nongovernment sources of business information include *Thomas' Register*, *Standard & Poor's*

*Register*, *Ward's Business Directory*, *Dun's Industrial Guide*, and reports by Dun & Bradstreet and Standard & Poor's, among others. Directories of trade associations that can be found in reference sections of libraries include the *Encyclopedia of Associations*, *National Trade & Professional Associations of the U.S.*, and the *Yearbook of International Organizations*.

## GLOSSARY OF KEY TERMS AND ABBREVIATIONS

**APEC:** The Asia-Pacific Economic Cooperation group was established in 1989 and has become the primary regional vehicle for promoting open trade and economic cooperation within that region. Currently, its members are (in order of joining) Australia, Brunei Darussalam, Canada, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, the United States, China, China-Hong Kong, Taiwan, Mexico, Papua New Guinea, Chile, Peru, Russia, and Vietnam.

**Antidumping duty:** A duty imposed by the United States to offset any profits a foreign firm attempts to make by dumping merchandise on the U.S. market. (See *Dumping*.)

**ASEAN:** Association of Southeast Asian Nations, consisting of Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

**CAGR:** Compound annual growth rate.

**Caribbean Basin Initiative (CBI):** An inter-American program, led by the United States, of increased economic assistance and trade preferences to Caribbean and Central American countries. CBI provides duty-free access to the U.S. market for most products from the region and promotes private sector development in the region.

**c.i.f.:** Cost, insurance, and freight. A pricing term indicating that the cost of the goods, insurance, and freight is included in the quoted price.

**Constant dollars ("real" dollars):** Output-valued base-year prices, calculated by dividing current (or actual) dollars by a deflator. The use of constant dollars eliminates the effects of price changes between the year of measurement and the base year and allows the calculation of real changes in output.

**Consumer Price Index (CPI):** Presents a weighted average cost of a representative basket of goods and services purchased by consumers relative to the cost of the same basket in the base year.

**Countervailing duty:** A retaliatory charge that a country places on imported goods to counter direct or indirect subsidies or bounties granted to the exporters of the goods by their home governments.

**Current dollars:** The actual dollar amount paid in sales transactions.

**Dumping:** A term used in international trade to refer to the sale of a product in export markets below the selling price for that product in the exporter's domestic market or lower than the cost of manufacturing and marketing such goods in the domestic market.

**Durable goods (durables):** Items with a normal life expectancy of 3 years or more, such as automobiles, furniture, and major household appliances. Sales of durable goods generally are postponable and therefore are the most volatile component of consumer expenditures.

**Euro:** The basic unit of the new common European currency, which was put into use on January 1, 1999. Initially, only 11 of the 15 European Union member countries participate. Denmark, Greece, Sweden, and the United Kingdom will continue to maintain their national currencies. Euro notes and coin are scheduled to be put into circulation on January 1, 2002, and all bank accounts must be converted to Euros by that date.

**Eurodollars:** Deposits held in denominations of U.S. dollars in commercial banks outside the United States.

**European Union (EU):** A regional economic/political organization forming the largest trading bloc in the world. Its 15 members are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

**Export-Import Bank (Eximbank):** An autonomous agency of the U.S. government created in 1934 to facilitate the export trade of the United States.

**f.a.s. (free alongside ship):** The transaction price of an export product, including freight, insurance, and other charges incurred in placing the merchandise alongside the carrier in the U.S. port.

**f.o.b. (free on board):** Without charge for delivery of export merchandise to, and placing on board, a carrier at a specified point.

**Foreign trade zones (FTZs):** Designated areas in the United States, usually near ports of entry, considered to be outside the customs territory of the United States. Also known as free trade zones.

**G-7 (Group of Seven):** Seven industrial countries: the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada. G-7 heads of state and/or government have met at annual economic summits since 1975. G-7 finance ministers meet periodically to discuss economic issues of common concern.

**General Agreement on Tariffs and Trade (GATT):** An international organization and code of tariffs and trade rules that evolved out of the multilateral trade treaty signed in 1947. It was replaced by the World Trade Organization (WTO) on January 1, 1995.

**Generalized Agreement on Trade in Services (GATS):** Expands the rules on trade in goods that were negotiated under GATT auspices to include trade in services.

**Generalized System of Preferences (GSP):** A system approved by GATT in 1971 that authorizes developed countries to give preferential tariff treatment to developing countries.

**Gross domestic product (GDP):** The value of all goods and services produced in a country during a specified time period. (See *Value Added*.)

**Harmonized System (HS):** An international convention that was implemented by the United States in 1989 for classifying imports and exports so that data from different countries are comparable.

**Industry shipments:** The total value of products shipped by establishments classified as being in an industry, plus miscellaneous receipts.

**Intellectual property:** Includes trademarks, copyrights, patents, and trade secrets.

**Intellectual property rights (IPR):** In general, the right to possess or control the use of intellectual property.

**International Monetary Fund (IMF):** Established in 1945, the IMF serves as a permanent forum for its member countries to discuss and coordinate economic and financial policies. Its capital is derived from subscriptions from member countries. Its resources are used to provide assistance to members facing relatively short-term economic difficulties.

**ISO 9000:** A series of five standards (9000–9004) of the International Standards Organization (ISO), an international agency that promotes quality standards in products and systems. The ISO 9000 family of standards applies to quality assurance in design, development, production, installation, and servicing (ISO 9001); production, installation, and servicing (ISO 9002); and final inspection and testing (ISO 9003). ISO 9004 contains guidelines.

**Maquila (maquiladora):** A Mexican assembly plant generally, but not necessarily, near the U.S.–Mexican border; most of its production is exported to the United States.

**Most-favored-nation (MFN) trade status:** An arrangement in which GATT countries must extend to all other members the most favorable treatment granted to any trading partner, thus assuring that any tariff reductions or other trade concessions are extended automatically to all GATT parties. Under WTO, this status is known as “normal trading relations.”

**n.e.c.:** Not elsewhere classified.

**NIC/NIE:** A newly industrialized (or industrializing) country/economy that has experienced rapid growth in GDP, industrial production, and exports in recent years.

**Nondurable goods (nondurables):** Items that last less than 3 years, such as food, beverages, and clothing. Generally, purchases of these items cannot be postponed significantly.

**North American Free Trade Agreement (NAFTA):** Agreement creating a free trade area among the United States, Canada, and Mexico. The agreement became effective January 1, 1994.

**North American Industry Classification System (NAICS):** A new economic classification system adopted by the United States, Canada, and Mexico for defining industries and classifying establishments by industry. It replaces the SIC in the United States.

**OEM:** Original equipment manufacturer.

**Organization for Economic Cooperation and Development (OECD):** A group of 29 industrialized, market economy countries that aims to promote its members’ economic and social welfare and stimulate economic development efforts in developing countries. The OECD was established in 1961 and is headquartered in Paris. Member countries are Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, South Korea, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

**Organization of Petroleum Exporting Countries (OPEC):** An association of important oil-exporting countries that are highly dependent on oil revenues, formed in 1960. Its major objective is to coordinate and unify petroleum policies among its 11 member nations: Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates, and Venezuela.

**Pacific Rim:** A term that technically means all countries bordering the Pacific Ocean, although it often refers only to east Asian countries.

**Product shipments:** The total value of specific products shipped by all establishments irrespective of these establishments’ industry classification.

**Standard industrial classification (SIC):** The former U.S. government-established standard for defining industries and classifying establishments by industry.

**Uruguay Round:** The eighth and final round of multilateral trade negotiations held under GATT auspices. Named for the country where initial discussions began in September 1986 and concluded in December 1993; most of the negotiations have taken place in Geneva, Switzerland.

**Value added:** The difference between the value of goods produced and the cost of the materials and services purchased to produce those goods. It includes wages, interest, rent, and profits. The sum of value added of all sectors of the economy equals GDP.

**Voluntary restraint agreement (VRA):** An import relief device to limit foreign trade in a particular commodity to protect domestic industry from injury by foreign competition. Sometimes referred to as a “voluntary export restraint” or an “orderly marketing agreement.”

**World Bank:** This term refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The World Bank is the largest provider of

development assistance to developing countries and countries in transition, committing about \$20 billion in new loans each year. Its main focus is to help people in developing countries raise their standard of living through financing for agriculture, schools, health programs, transportation, and other essential needs.

**World Trade Organization (WTO):** Created by the Uruguay Round to succeed GATT on January 1, 1995. It expands GATT's rules to apply to trade in services and intellectual property rights. A tribunal to adjudicate trade disputes also was established.

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## PERMISSIONS

# Economic Assumptions of *Outlook 2000*

*U.S. Industry and Trade Outlook 2000* provides estimates of near-term growth for major industries of the economy. These estimates reflect the knowledge of analysts from the U.S. Department of Commerce and Data Resources, Inc., regarding the specific circumstances that influence the industries they follow. The estimates also reflect the broad economic projections that were made in about midyear 1999. The midyear assumptions were more conservative than those presented in this chapter, which incorporate the effects of the comprehensive revisions to the national income and product accounts published in October 1999 and also reflect current views on the economic outlook.

In early 2000, private sector analysts anticipated that the U.S. economy would grow at a strong pace in 2000 and 2001, but less than the 4.1 percent average gain registered over the prior 4 years. Expectations also included moderate inflation and a low unemployment rate. Table B-1 shows the private sector forecasts published by *Blue Chip* Consensus in January 2000.

**TABLE B-1: Economic Forecasts for 2000 and 2001**

	Actual		Forecast	
	1998	1999	2000 <sup>1</sup>	2001 <sup>1</sup>
Real GDP (% change)	4.3	4.0	3.1–4.0	2.3–3.7
Consumer price index (% change)	1.6	2.2	2.0–2.9	1.9–3.0
Unemployment rate (percent)	4.5	4.2	3.9–4.4	3.9–4.7

<sup>1</sup> Private sector forecasts published by the *Blue Chip* Consensus, January 2000. Range reflects the average of the top 10 and bottom 10 forecasts.

To emphasize the uncertainty of the gross domestic product (GDP) and related forecasts, ranges that indicate likely trends rather than point estimates are shown in the table.

The administration's forecasts for the years 2000 and 2001 fall within the indicated range of private sector forecasts.

## The Economy in 1999

A brief review of economic developments in 1999 provides an introduction to the projections for 2000 and 2001. The U.S. economy ended the year on a very strong note and grew 4.0 percent in the year as a whole (year-over-year growth rates are shown in Figure B-1).

The current economic expansion set an endurance record in February 2000 and will complete its ninth year in March 2000. The previous record was held by the 1961–1969 expansion, which lasted 106 months and coincided with the Vietnam War.

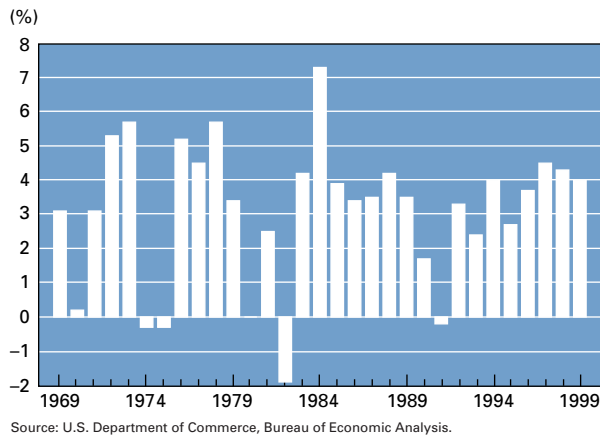
Growth in 1999 again surpassed expectations. At the start of each of the past 4 years, private sector and administration forecasts anticipated an increase of about 2¼% in the coming year. In those years, actual growth outdid expectations by a large 1.8 percentage points on average.

In 1999, domestic spending continued to be the major force driving the U.S. economy. Exports were limited by less vigorous growth in foreign economies and contributed modestly to overall U.S. growth.

Household spending—consumer spending plus residential construction—accounted for much of the strength in domestic spending in 1999. That vigorous spending reflected a combination of large gains in real disposable income and payroll

## Real GDP, 1969 to 1999:

### Year-over-Year Percent Change



**FIGURE B-1**

employment, low interest rates for home mortgages, and a surge in household wealth caused by higher equity prices and increases in the value of existing homes. The strength in spending caused the personal saving rate to fall further. The personal saving rate trended downward from the recent high of 8.7 percent in 1992 to 2.4 percent in 1999, the lowest annual level since the series began in 1959.

Business spending for equipment and software continued to account for a significant and stable share of the growth in domestic spending. Purchases of computers and other information-processing equipment accounted for most of the growth in business spending as companies incorporated new technologies and innovations into their production processes.

Y2K concerns had a small impact on U.S. business activity in 1999. Available data suggest that firms and public agencies spent about \$30 billion in that year to hunt down and correct error-prone technologies. Total Y2K-related spending in the second half of the 1990s reached an estimated \$100 billion. The changeover from 1999 to 2000 caused no major disruptions.

Consumer prices rose a modest 2.2 percent in 1999. That pace represented a pickup from the 1.7 percent advance in 1998. However, the sharp rebound in energy prices more than accounted for the acceleration. The rate of inflation in core prices remained subdued. Figure B-2 shows that this rate of inflation, measured by consumer prices excluding those for food and energy, has trended downward throughout the current expansion.

Resource utilization in the product and labor markets continued to diverge in 1999. Throughout 1999, capacity utilization in manufacturing remained below its long-term (1967–1998) average of 81.1 percent. As a result, inflationary pressures in core consumer prices remained limited. The rate of inflation in core consumer prices tends to ease when manufacturing capacity utilization is below its long-term average but tends to increase when utilization is above that average.

In contrast, the unemployment rate averaged 4.2 percent for the year, the lowest yearly rate since 1969. This tightness in the labor markets did not lead to significant upward pressures on labor costs. Hourly compensation in the nonfarm business sector rose 4.8 percent in 1999, a smaller increase than the 1998 advance of 5.2 percent. In addition, businesses achieved solid gains in labor productivity. As a result, the rate of increase in labor costs per unit of output, a major component of total costs, rose only 1.8 percent in 1999, down from the 2.4 percent increase in 1998.

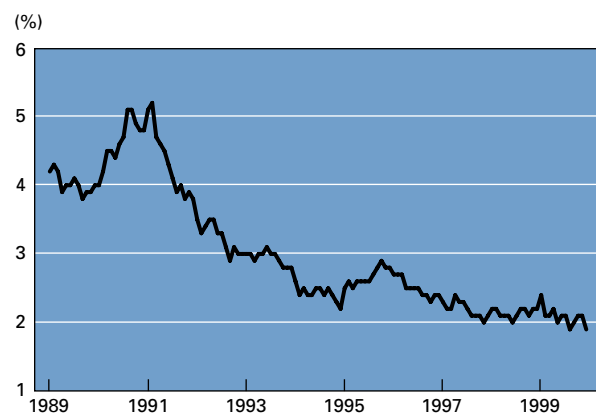
Strong domestic demand contributed to rapid growth in U.S. imports of goods and services, while the subdued performance of foreign economies led to little growth in U.S. exports. Available data suggest that the U.S. economy grew roughly 1 percentage point faster than a weighted average of key foreign economies in 1999. As a result, the U.S. trade deficit in goods and services rose to a record \$267 billion on an annual basis in the first 11 months of 1999 from \$164 billion in 1998. Relative to GDP, the deficit jumped to 2.9 percent in the period from January to November from 1.9 percent in 1998. The record ratio for a complete year remains 3.2 percent in 1987.

Oil prices also affected U.S. trade. The price of imported oil fell from \$21.86 per barrel in January 1997 to \$9.19 in January 1999 and then rebounded to \$22.67 per barrel in December 1999 (the latest available data). The volume of monthly crude oil imports fluctuated around a flat trend between mid-1997 and late 1999, and the large price movements caused the petroleum trade deficit to fall in 1998 and rise sharply in 1999.

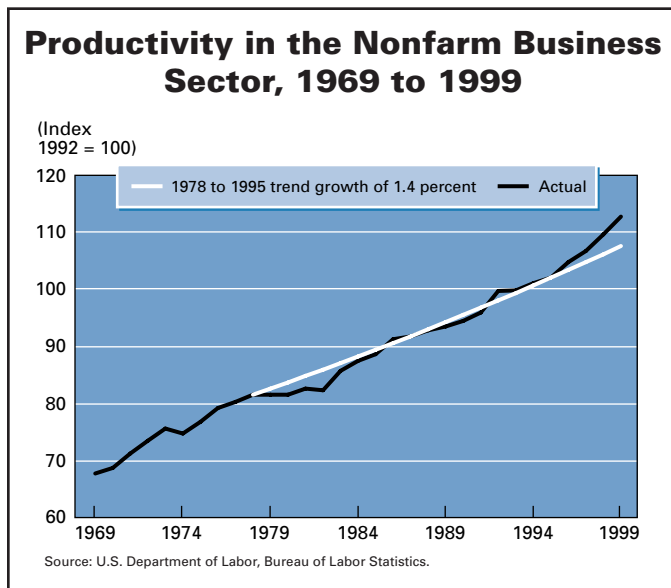
The economy's vigorous expansion in 1999 contributed to another increase in the federal government surplus. The budget surplus rose to \$122.7 billion in fiscal year (FY) 1999. Relative to GDP, the budget shifted from a 4.7 percent deficit in FY 1993 to a surplus of 1.3 percent in FY 1999.

## Consumer Prices Minus Food and Energy<sup>1</sup>, 1989 to 1999:

### 12-Month Percent Change



**FIGURE B-2**



**FIGURE B-3**

The Federal Reserve tightened monetary policy in 1999. Actions in July, August, and November raised the federal funds and discount rates by three-quarters of a percentage point. Those actions reversed the policy moves made in the second half of 1998 in response to unsettled conditions in the financial markets. Shifts in monetary policy usually take 6 to 9 months to affect GDP growth. Thus, the 1998 actions supported GDP growth in 1999 while the 1999 actions will tend to restrain growth in the year 2000.

### The Economy in 2000 and 2001

Most analysts expect the U.S. economy to grow strongly in the next 2 years. This expectation of strong growth represents a substantial upward shift in outlook compared with expectations of moderate growth at the start of each of the past 4 years. As

was noted earlier, forecasters (including the administration) anticipated 2¼ percent growth in each of the past 4 years. The forecast for 2000 represents roughly a 1¼ percentage point upward shift in expectations.

The outlook for the year 2000 reflects in part the marked acceleration in the rate of productivity growth in the second half of the 1990s from the trend rate between 1978 and 1995. Productivity in the nonfarm business sector trended upward at a rate of 1.4 percent per year between 1978 and 1995 (see Figure B-3). Since 1995, productivity has grown at a pace of 2.6 percent per year, 1.2 percentage points faster than the 1978–1995 trend rate. Further rapid gains in productivity would limit potential inflationary pressures from a tight labor market.

A recession is not anticipated over the forecast horizon. Economic expansions do not die from old age. Rather, they die when serious imbalances develop that bring inflationary pressures and rising interest rates.

The deficit in international trade remains a concern. The outlook for 2000 and 2001 is for a modest pickup in foreign economic growth from the 1999 performance, but the U.S. trade deficit is likely to widen further in the near term before it begins to improve.

Upward pressures in prices for crude oil and for commodities at the early stages of production developed in 1999. Those pressures partly reflected the stabilization or upturn of some Asian economies as well as strong growth in the North American economies. The decline in import prices for nonpetroleum goods apparently has ended.

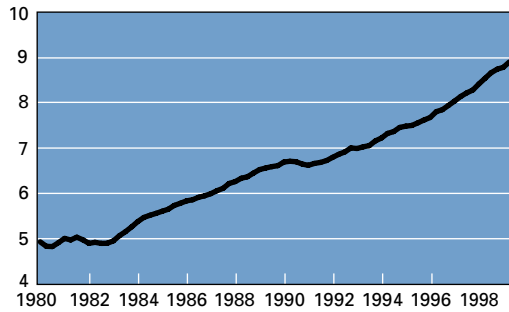
Stock prices remain an uncertain factor in the outlook. Slower growth in consumer spending, reflecting a leveling off in stock prices as well as the tightening by the Federal Reserve, could contribute to more sustainable overall economic growth in 2000 and 2001 and probably slow the decline in the personal saving rate. Slower overall growth would reduce the labor market pressures that have been a concern of the Federal Reserve.

**Lee Price**, Chief Economist, U.S. Department of Commerce, February 2000.

# U.S. Economic Trends

**Economic performance is excellent**

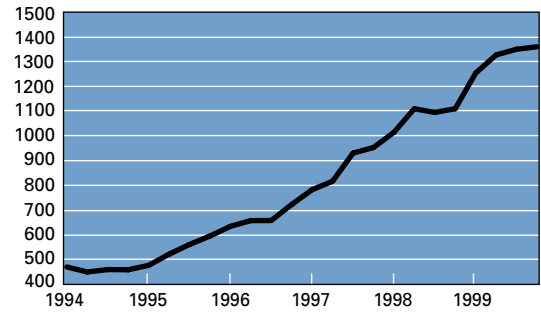
**REAL GROSS DOMESTIC PRODUCT**  
(Trillions of 1996 Dollars)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

**with the stock market at new highs;**

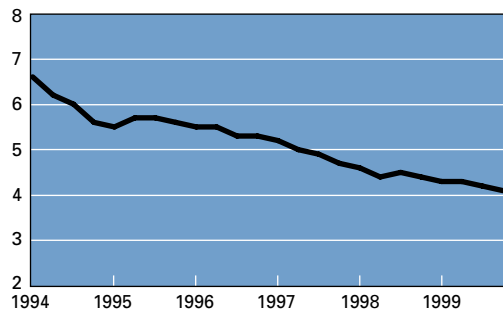
**STANDARD AND POOR'S 500 INDEX**



Source: Standard & Poor's/DRI.

**unemployment is low**

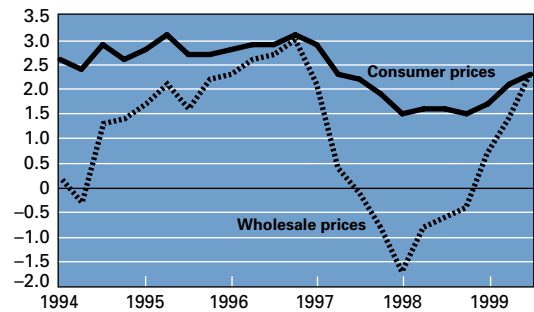
**UNEMPLOYMENT RATE**  
(Percent)



Source: U.S. Department of Labor, Bureau of Labor Statistics.

**and inflation is moderate;**

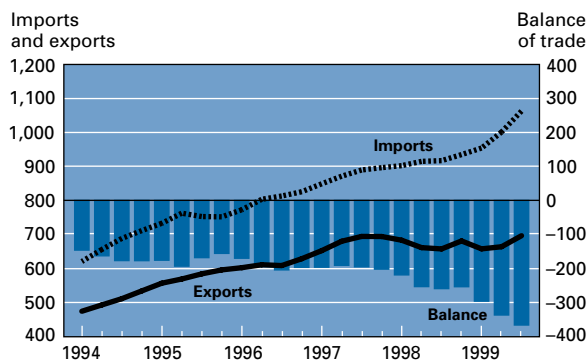
**INFLATION RATE**  
(Percent Change from Year Ago)



Source: U.S. Department of Labor, Bureau of Labor Statistics.

**but the trade deficit widens**

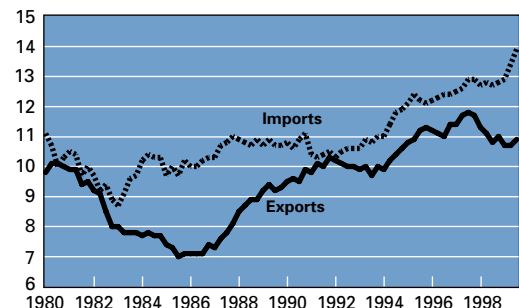
**U.S. MERCHANDISE TRADE**  
(Billions of Dollars, Annual Rate)



Source: U.S. Department of Commerce, Bureau of the Census.

**and imports rise more than GDP.**

**EXPORTS' AND IMPORTS' SHARE OF GDP**  
(Percent)

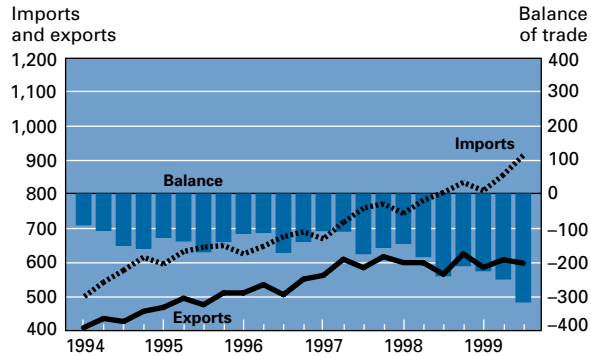


Source: U.S. Department of Commerce, Bureau of Economic Analysis.

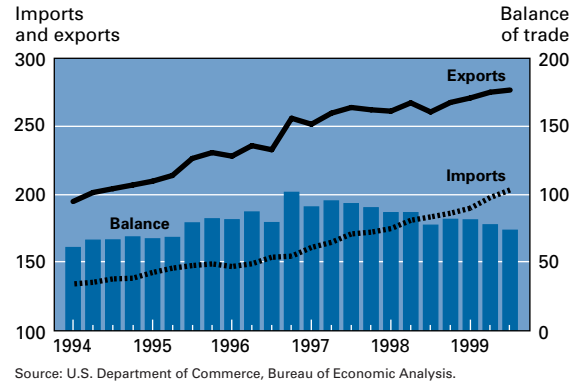


# U.S. Trade Trends

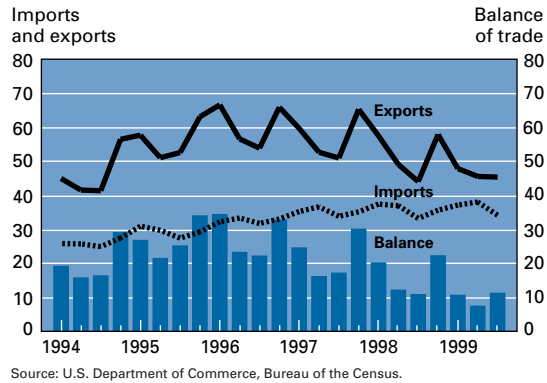
## U.S. TRADE IN MANUFACTURING (Billions of Dollars, Annual Rate)



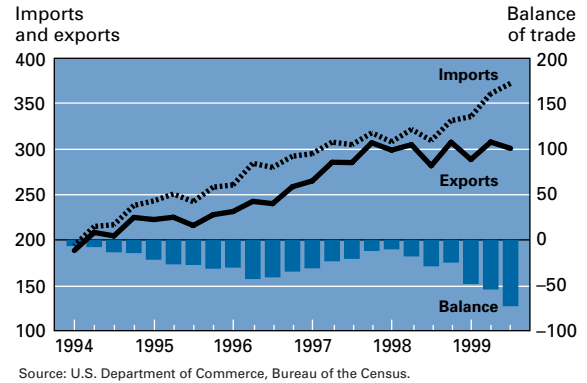
## U.S. TRADE IN SERVICES (Billions of Dollars, Annual Rate)



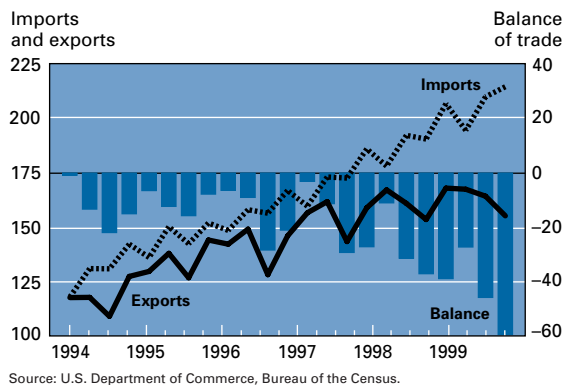
## AGRICULTURAL GOODS (Billions of Dollars, Annual Rate)



## U.S. TRADE WITH WESTERN HEMISPHERE (Billions of Dollars, Annual Rate)



## U.S. TRADE WITH WESTERN EUROPE (Billions of Dollars, Annual Rate)



## U.S. TRADE WITH ASIA (Billions of Dollars, Annual Rate)

